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Oilseeds and Products

Update

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Report Highlights:
Oilseed production in the EU27 in has been strongly influenced by weather. After the early and warm spring, the north western part of the EU has had cold and rainy weather while the south western parts were there was severe drought.

Prices of vegetable oils are on record highs triggered by the bad weather conditions and the demand from the biodiesel and the food industries.

Imports of rapeseeds were much lower during the first six months of 2007 while imports of soybeans increased compared to 2006. Imports of rapeseed oil and soybean oil were both increasing during this period while imports of sunflower seed oil and palm oil decreased.

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Introduction

The oilseed situation in the EU is strongly driven by the demand for biodiesel and the competition between biodiesel and oil for food.

The oilseed production in the EU this year has been largely influenced by weather conditions. While the north west part of the EU has had a quite cold and rainy season, the south east part of the union has had a severs summer drought that has influenced the harvest. In the south east part of the EU, where the drought has caused severe yield decreases, the most important oilseed is sunflower seed.

Crude oil prices in Rotterdam have rallied to new record prices of €750 for soy oil and €855 for rapeseed oil for Dec/Jan delivery. Despite the very high prices for rapeseed and rapeseed oil the planted area is expected to decrease for MY 2007/08 due to the very high prices for wheat. In general the price for rapeseed must be twice as high as the price for wheat to generate the same profit, due to higher input costs for rapeseed.

Rapeseed

Prices of rapeseed and rapeseed oil are still firm due to strong demand for rapeseed from the biodiesel and the food industry. Several consumers have reduced consumption of higher-priced sunflower oil. Strong demand for biofuels, sharply lower imports of rapeseed and canola oil from third countries, and very low rapeseed oil stocks are other factors influencing the prices. Another supportive factor for rape oil prices is reportedly the unusually large exports of EU rapeseed to third countries in the first 2-3 months of this season

Despite the increased area planted with rapeseed in the EU27 this season the EU harvest is not expected to have increased as much as earlier anticipated. This is due to detrimental weather conditions. In the north west part of the EU the weather has been cold and rainy during the season, and in the south east part of the EU there was a severe summer drought.

In **France** rapeseed production has been significantly revised down from May estimates due to the adverse weather conditions. The wet summer favored fungi development and gave a yield of 2.81 MT/ha instead of expected 3.14. However rapeseed production in France is still increased in 2007, mainly due to the increase in acreage. The French rapeseed production in 2007 is 4,39 million MT, down 508,000 MT from earlier estimate. For next years crop, rapeseed plantings in France are estimated to decline by 10 percent. Several factors are putting downward pressure on industrial rapeseed acreage, including the fact that wheat is

currently more profitable, the reduction of compulsory set-aside rate from 10 percent to zero percent by the EU Commission, and the questioning of the energy crop program (under which farmers get a 45 euro per hectare subsidy), under the CAP Health Check discussions.

In 2007 the **French** acreage for industrial rapeseed (870,00ha) was for the first time larger that the acreage used for food (695,000ha). French oilseed growers are worried about the reduction of the set-aside rate as they fear this will jeopardize their industrial rapeseed plantings. Due to the currently high market prices for rapeseed, contract prices for industrial rapeseed have been increased by the industry, to remain attractive for farmers.

In **Germany** the preliminary final rapeseed production estimate for the 2007 harvest amounts to 5.3 million MT. This is a decrease of 0.6 percent compared to the harvest of 2006. The seemingly stable production occurred despite a 8 percent reduction in yields, which was offset by an 8 percent expansion of the area. A lack of spring rain and high incidents of the black leg fungus contributed to the lower yields. Industry in Germany estimates a reduction of winter rapeseed plantings for harvest in 2008 of 8 – 10 percent to about 1.4 million ha. This is largely a result of a reduction in the price difference between rapeseed and baking wheat

In the **U.K** the area planted with rapeseed in 2007 was greater than previously predicted. The U.K is estimated to have increased its rapeseed area by over 20 percent year on year. The summer 2007 floods in the U.K did not affect rapeseed growing areas so the harvest yields have not been affected.

In **Romania** the area cultivated with rapeseed was four times higher than the previous year reaching 348,000 Ha. However, due to the extremely unfavorable climatic conditions the output was 38 percent lower than earlier estimated. The entire harvest has already been sold either for internal use (for biodiesel), or exported (other MS or Turkey). Area sown with rapeseeds this fall expanded by 17 percent.

Also in **Hungary** there is a firm growing tendency in the production area in the last years. The Hungarian rapeseed production is over 40 percent higher than earlier estimated, mainly due to higher than expected yields per hectare. For 2007/08 fall seeding indicates another 10-12 percent increase in area.

In the **Czech Republic** the rapeseed area increased by 16 percent due to the biofuel production expectations. For My 2007/08 a production increase of 17 percent is expected.

In **Sweden** the yields per hectare were higher than previously expected due to the weather conditions. The amount of rapeseed used for biofuel production is however somewhat lower than earlier expected. Plans to increase the capacity of biodiesel production have been put on hold due to uncertainties regarding future conditions for biodiesel production, e.g. government incentives to support such production.

Soybeans

At the beginning of the year, processors with multiseed crushing plants planned to reduce soybean crushing and expand rapeseed crushing. During the summer however, margins on soybean crushing increased in the comparison with rapeseed crushing margins. This is partly due to the increased demand for soybean meal. During 2007/08, feed use of soybean meal is expected to increase as a consequence of the limited availability of feed grains in the EU.

In the **Benelux** soybean imports increased during 2006/07 and are expected to remain on a high level during 2007/08. The high prices for wheat and Barley makes them to expensive for pig and cattle feed. A combination of soybean meal and tapioca are replacing these grains. Also the use of rapeseed meal, sunflower seed meal and palm kernel meal is expected to increase in feed.

In **Romania** the situation has changed radically since they joined the EU last year. In 2006 Romania had about 190,000 ha soybeans, of which about 70 percent were Round-up ready. This year the area is only 114,000 ha generating an output of 123,000 MT and as a result of the accession the seeds were entirely conventional. This year's bad weather condition has had less effect on soybeans than on other oilseeds, as mainly larger farms that afford irrigation grow this crop. However the extra costs for soybean production have been so high this year that farmers are discouraged to plant soybeans for next year, especially the farmers experienced with biotech soybeans in the past.

Sunflower seed

In **Hungary** sunflower seed harvest this year is 25 percent lower than earlier estimated because of the serious drought. The major consumer of sunflower seed in Hungary is Bunge. Bunge has just upgraded its main crushing facility and domestic crush of sunflower seed may increase by 15-20 percent during 2007/08.

Sunflower seed production in **Romania** suffered by the severe drought and extreme heat too and the production this year was 62 percent lower than estimated this spring. Romania has until now been an exporter of about half a million MT of sunflower seeds per year. Nevertheless, since this year the total production is around this figure, the domestic processing industry needs will only be partially covered. The deficit is expected to be covered by crude oil imports, although at much higher prices.

Also in **Bulgaria** the sunflower crop is affected by the drought, estimated average yields are at 0.6 MT/HA to 1.2 MT/HA. Current estimated harvest is at 650,000 MT. In major production areas, 25 percent of sunflower crop is severely hit, the remaining 75 percent is in relatively good condition. According to first reports, quality of sunflower is not very good, the fat content is lower and the percent of foreign matters is higher than usual.

Total **French** sunflower seed production declined from 1.36 million MT in 2006 to 1.28 million MT in 2007, mainly due to reduced acreage, despite higher yields. Most domestic production consists of oleic varieties. The acreage planted to industrial sunflower seed increased from 54,000 ha in 2006 to 128,000 ha in 2007. Subsequent industrial sunflower seed production went up from 120,000 MT in 2006 to 310,000 MT in 2007.

In **Germany** sunflowers are grown on a comparatively small area. Compared to 2006, the average yield increased by 30 percent to 2.5 MT/ha. However, this was more than offset by a 40 percent decrease in area to only 18,000ha. As a result the total crop decreased by 23 percent compared to 2006 to 47,400 MT.

Palm oil

During the first half of 2007, **Benelux** palm oil imports declined. The Benelux is by far the most important importer of palm oil in the EU. During this period, the industry depleted their palm oil stocks, which were imported during 2006. Considering the current capacity for palm oil processing in the port of Rotterdam, palm oil imports are expected to recover during the second half of 2007.

Palm oil imports to the **U.K.** mainly from Indonesia and Papua New Guinea, are about 16 percent lower than earlier expected.

Prices

The difficult weather situation in the EU, as well as in other places around the world, together with the strong demand for vegetable oil for the production of biodiesel has had an important effect on the prices of the oils. Also the substantial decline in rapeseed oil stocks from 162 thousand MT in November 2006, to only 8 thousand MT in early October 2007 push to the price for rapeseed oil.

Vegetable oilseed prices have been increasing strongly this year and in Rotterdam prices for crude soy oil and rapeseed oil rallied to new record highs for Dec/Jan deliveries. Price for crude soy oil was €750/MT and for crude rape seed oil €855.

Prices of sunflower seed oil are still the highest though they are down from the highs registered in early October.

Imports of oilseed

EU27 1205, Rape Or Colza Seeds, Whether Or Not Broken (MT)			
Year To Date: January - July			
	2005	**2006**	**2007**
World	16,398	295,888	73,477
Russia	9,238	5,504	19,115
Kazakhstan	0	1,7370	16,729
Ukraine	1,240	3,050	12,757
Argentina	0	0	11,790
Uruguay	0	0	6,199

Source: GTA

EU27 1201, Soybeans, Whether Or Not Broken (MT)			
Year To Date: January - July			
	2005	**2006**	**2007**
World	8,692,021	8,115,909	9,325,110
Brazil	5,512,470	5,741,311	6,062,403
U.S	2,354,858	1,461,545	2,020,080
Paraguay	529,094	557,157	616,915
Canada	177,178	128,819	256,712
Argentina	37,899	52,980	153,190
Ukraine	6,969	85,572	121,743

Source: GTA

EU27 1206, Sunflower seeds, Whether Or Not Broken (MT)			
Year To Date: January - July			
	2005	**2006**	**2007**
World	314,506	398,698	422,272
Ukraine	15,695	162,259	200,380
Russia	7,994	84,188	55,415
China	67,212	51,693	49,804
U.S.	37,881	42,492	39,997
Moldova	28,649	11,205	38,293
Argentina	53,505	15,560	11,898

Source: GTA

During the first seven months of 2007 imports of rapeseed have decreased hugely compared to 2006. From January through July of 2006 the EU imported 295,888 MT and compared to only 73,477MT in the same period of 2007. The biggest providers of rapeseed to the EU are Russia, Kazakhstan and the Ukraine.

Import of vegetable oils

EU27 1514, Rapeseed and Colza Oil (MT) Year To Date: January - July			
	2005	**2006**	**2007**
World	8,562	310,601	370,696
Canada	1,804	172,508	109,668
United Arab Emirates	0	18,380	82,819
United States	16	43,303	72,724
China	10	28,418	64,533
Russia	47	1,756	17,345

Source: GTA

EU27 1507 Soybean oil (MT) Year To Date: January - July			
	2005	**2006**	**2007**
World	90,492	387,734	519,924
Brazil	45,412	279,677	349,672
Argentina	1,003	75,737	110,718
Norway	32,877	17,158	39,362
Serbia	2,473	3,674	7,748
Ukraine	0	2,908	4,527
United States	44	2,425	3,774

Source: GTA

EU27 1517, Sunflower seed Oil (MT) Year To Date: January - July			
	2005	**2006**	**2007**
World	574,261	795,635	701,128
Ukraine	140,702	393,175	469,675
Russia	94,209	174,692	161,525
Argentina	314,693	182,318	32,440
Moldova	7,364	15,500	23,957
Brazil	0	62	4,680
United States	46	9,068	156

Source: GTA

EU27 1511, Palm Oil (MT) Year To Date: January - July			
	2005	**2006**	**2007**
World	2,374,077	2,572,939	2,224,446
Malaysia	1,075,784	1,112,534	941,975
Indonesia	861,754	1,120,015	872,240
Papua New Guinea	227,922	220,422	229,368
Colombia	124,773	87,355	132,124
Thailand	255	348	23,716

Source: GTA

Imports of the two most important vegetable oils in the EU, rapeseed oil and soybean oil have so far been larger during the first seven months of 2007 compared to the first seven months of 2006. There is a huge increase in imports from Argentina and Brazil and only a smaller increase from the U.S.

Imports of sunflower seed oil are declining this year. This decline is caused by the lower then expected availability and the very high prices for sunflower oil. The most important exporters of sunflower seed oil to the EU are the Ukraine and Russia.

The EU legislation for Genetically modified (GM) organisms covers only food and feed products. Vegetable oils from GM oilseeds can be imported to the EU as long as they are used for industrial purpose.

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